



*Rosalind M. Hewsenian  
Managing Director*

November 28, 2005

Mr. Mark Anson, Chief Investment Officer  
Ms. Anne Stausboll, Interim Chief Investment Officer  
California Public Employees' Retirement System  
400 P Street, Suite 3492  
Sacramento, CA 95814

Re: Domestic Equity Growth Manager RFP

Dear Mark and Anne,

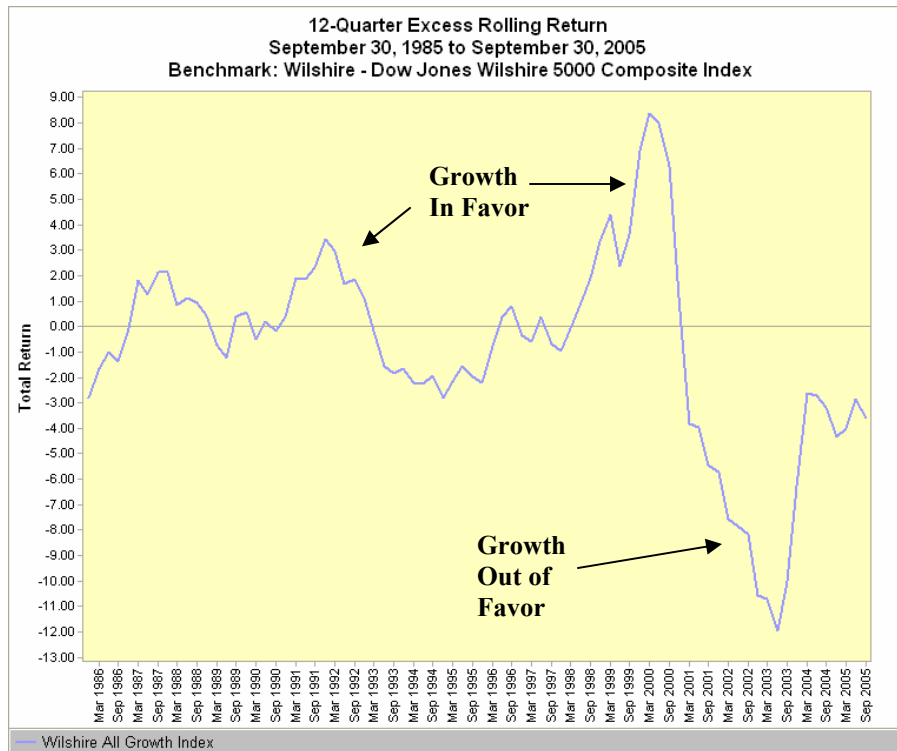
You had requested Wilshire's opinion with respect to Staff's recommendation to issue a Request for Proposal (RFP) for a Spring-Fed Pool for domestic equity growth managers in two categories: active and enhanced indexation. Wilshire concurs with Staff's recommendation.

**Discussion**

Over the last five years, the US equity market has experienced an extended period of style divergence. During this period, growth as a style has significantly underperformed value. The relative performance of growth over the last twenty years is shown in the exhibit on the next page. As you can see, the growth style has gone in and out of favor relative to the general market and is currently out of favor. Specifically, over the 5-year period ended September 30, 2005, the Wilshire All Growth Index generated an annualized return of -8.38% versus the 5.27% return of the Wilshire All Value Index over the same period. This has been a tough environment for growth investing in general, as growth-oriented managers underperform the general market (and often times their growth benchmarks) in periods when their style is out of favor.

As a result, several managers in CalPERS' external manager line-up have resigned over the last few years. This has resulted in a shortage of growth-oriented managers in the external portion of CalPERS' US equity segment. CalPERS currently has two external active growth managers, while it has four external active value managers. While this imbalance in external assets (Active External Domestic Equity Breakdown as of 9/30/05: 62.5% core, 11.1% growth, and 26.4% value) is offset by the Dynamic Completion Fund, Wilshire believes that additional external growth managers will help alleviate the current shortage of external growth managers and will better equip CalPERS for taking

advantage of a possible comeback of the growth style, as history shows that the underperformance of growth will most likely not continue forever.



Wilshire believes that CalPERS will benefit from issuing the RFP to both active and enhanced index managers versus limiting it to only active managers. While full-blown active managers generally target a higher level of value-added, enhanced index managers have shown an ability to achieve an attractive level of value-added more consistently (though for the most part, not as high as active managers) with very tight risk controls. As you may recall, insufficient risk controls was one of the key factors that hurt the performance of many active managers over the last several years. Therefore, opening up the RFP to include both active and enhanced index managers will lead to a better pool of candidates for CalPERS from which to choose.

### Conclusion

Wilshire concurs with Staff's recommendation to issue an RFP for a Spring-Fed Pool of active and enhanced index domestic equity growth managers. Please let us know if you have any questions.

Sincerely,

*R. M. Hensenian*